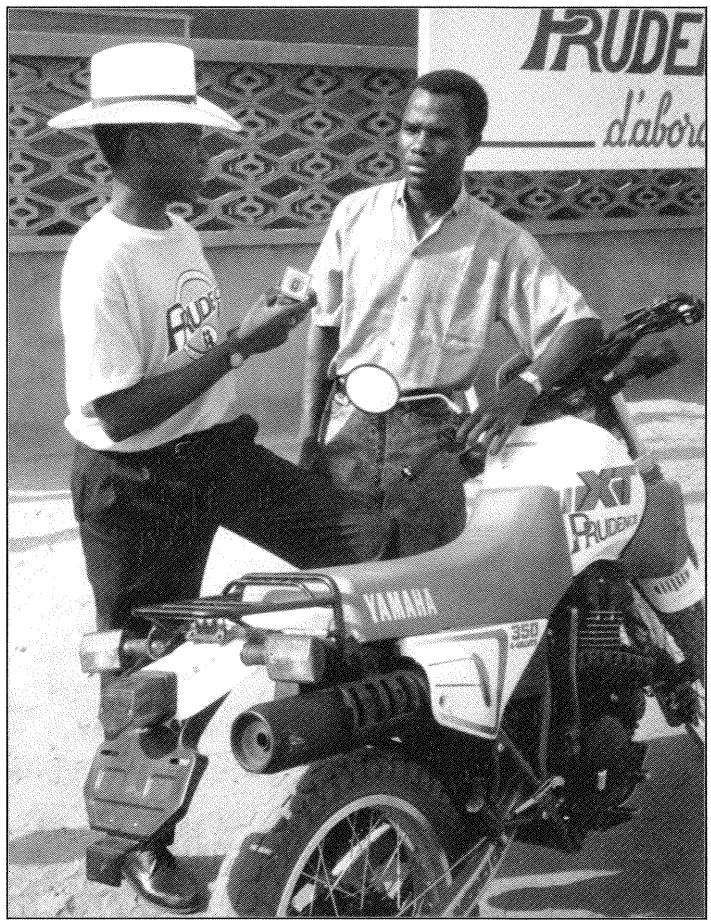
EXPANDING COMMERCIAL SECTOR PARTICIPATION IN FAMILY PLANNING

Summary

This brief examines prospects for reducing the burden on public sector services by promoting the growth of the commercial sector. The following issues are addressed:

- definition of the commercial sector for family planning;
- the scope and characteristics of the commercial sector in sub-Saharan Africa;
- the extent to which individuals with the ability to pay for commercial sector services use the public sector;
- interventions that can be used to promote commercial sector growth; and
- key questions to help determine whether and how to invest further resources in the commercial sector.



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QUESTION #1:

What is the commercial sector for family planning?

The commercial sector for family planning includes retailers, private health professionals and facilities, employers, and health insurance arrangements that provide or finance family planning services with the objective of making a profit.

The commercial sector does not include private sector providers that do not intend to make a profit on their services, such as mission facilities and the affiliates of the International Planned Parenthood Federation. Social marketing activities, which comprise the bulk of retail contraceptive services in many settings, are also not purely commercial, since they tend to be highly subsidized by government and donors. These types of providers receive the majority of their funding from host country governments and donors.

QUESTION #2:

What role does the commercial sector play in family planning in sub-Saharan Africa?

Sub-Saharan Africa has the least developed commercial sector in the world. The commercial sector share of the family planning market ranges from less than 2 percent in Rwanda to about 50 percent in Cameroon.[1] Much of this commercial activity is comprised of subsidized social marketing. Purely commercial family planning services are extremely rare in sub-Saharan Africa.

The public sector is the dominant source of family planning services in the region. In most countries, more than half of all contraceptive users obtain their methods from a government source.[2] In Botswana, Niger and Rwanda, more than 90 percent of all clients use government sources. The public sector plays a much more significant role in contraceptive service delivery in Africa than it does in other parts of the developing world.

Does the commercial sector play a dominant role in the provision of re-supply methods?

In most of the world, clinical methods — such as intrauterine devices (IUDs) and sterilizations — are usually obtained from fixed government facilities and other commercial and noncommercial providers, while re-supply methods — such as oral contraceptives and condoms — are usually obtained from commercial pharmacies. This is the case in all countries surveyed by the Demographic and Health Surveys (DHS) with the exception of a number of countries in sub-Saharan Africa. In almost half of all sub-Saharan African countries surveyed, less than 10 percent of re-supply methods are provided by pharmacies (see Figure 1).[3,4] There appears to be ample room for encouraging a greater role for pharmacies in the provision of re-supply methods in Africa.

QUESTION #3:

Could some public sector clients afford to use the commercial sector?

Households with higher incomes and more assets are more likely to use the commercial sector, and those with lower incomes and fewer assets are more likely to use lower cost, public sector and nongovernmental (NGO) service outlets. However, there tends to be some overlap in the income/assets levels of clients using different sources, implying that some clients who use the public or NGO sectors could afford to use the commercial sector.

The extent to which wealthier individuals use subsidized services in sub-Saharan Africa can be illustrated using DHS data. The DHS surveys do not provide data on wealth and income that can be compared with the sources individuals use for family planning services. However, data on household characteristics that can be associated with wealth — such as the existence of piped water, or the fact that the head of the household works in a white-collar profession — are available. While these measures are far from perfect proxies, they give some idea of the extent to which there may be room to improve the impact of scarce public funds.

In most African countries, the proportion of women with piped water in their homes is highest among those using the commercial sector for family planning.[5] Similarly, the proportion of women married to white-collar workers is highest among commercial sector users. In most countries, commercial sector family planning users appear to be more economically secure than their public sector counterparts.

However, not all public sector clients are poor. In Kenya, for example, about 43 percent of public sector users are married to white-collar workers.[6] And in Ghana,

public sector users are more likely to be married to white-collar workers (see Table 1). It appears that a proportion of the public subsidy for family planning is used to provide services to individuals who are economically secure. If individuals with the ability to pay for family planning were encouraged to use the commercial sector, more of the public subsidy could be used to expand services for the poor.

To determine the overlap in ability to pay among public and commercial sector users, information is needed on both the mean values of indicators, and the range in these values. For example, what percentage of public sector users have incomes that overlap with those of users of the commercial sector?

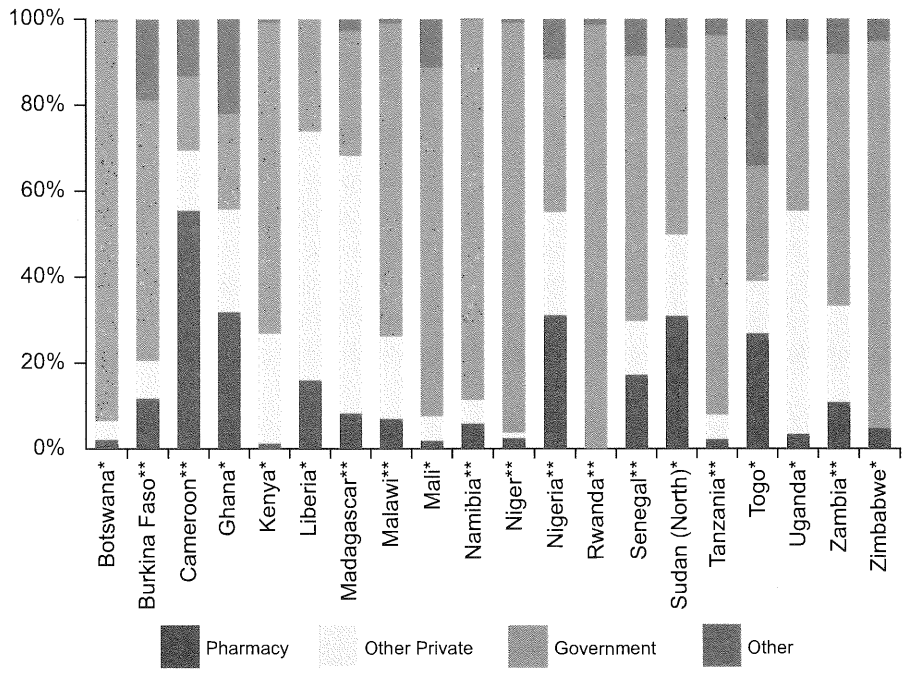
QUESTION #4:

How can market segmentation be used to increase the use of the commercial sector?

Market segmentation strategies are used by businesses to divide their customers into distinct groups based on different factors, such as income, and to target their products accordingly. A variation of this approach is used to market public health goods, including family planning. In family planning, market segmentation is used to divide the family planning market into groups based on choice of method and provider and to match clients with sources based on need and ability to pay. Effective market segmentation strategies can make it possible for the public sector to focus its resources on those most in need while promoting the growth of commercial sector services for those who are able to pay.

Family planning market segmentation studies provide the information needed to formulate and develop strategies to promote the commercial sector. While such studies have not yet been conducted in sub-Saharan Africa, they have been conducted in Indonesia,[7] the Philippines,[8] Turkey,[9] Egypt[10] and other countries. These studies often find significant room for a transfer of users from the public to the commercial sector. In the Philippines, for example, while high and middle income women are more likely to use the private sector, more than 40 percent continue to use the public sector.[11] How effective these studies are in facilitating the planning and implementation of strategies to transfer clients from subsidized to

Figure 1. Modern Re-supply Methods Market Share (percentage)



Sources:
* Ayad et al., 1994.
** Curtis and Neitzel, 1996.

non-subsidized programs needs to be evaluated. The potential of market segmentation for the sub-Saharan region should also be explored.

QUESTION #5:

What steps can be taken to make the commercial sector a more significant provider of family planning services in sub-Saharan Africa?

A wide range of factors influence the size of the commercial sector for family planning. Some of these factors can only be influenced by long-term socio-economic change. For example, in low-income countries, average per capita income is strongly linked to commercial market share.[12] More urbanized countries also have larger commercial sectors, because cities provide the levels of demand needed to make family planning a profitable enterprise.[13]

There are, however, three other constraints to commercial sector growth that can be minimized through research and policy intervention:

- lack of information on the commercial sector market;
- competition with low- or no-cost government programs; and
- regulatory and tax barriers.

These constraints are discussed in detail below.

How does lack of information on the commercial market affect its growth?

The size and nature of the commercial sector — as well as the constraints it faces — vary significantly from country to country. Any policy that aims to encourage commercial sector development must be based on a full understanding of its characteristics. Assessments of the commercial sector for family planning have been undertaken in Kenya,[14] Nigeria[15] and Zimbabwe.[16] Assessments of the private sector for health care as a whole have been undertaken in Senegal,[17] Tanzania[18] and other settings. Analyses of this type need to be undertaken in significantly more depth vis-à-vis the commercial sector for family planning per se before they will be of use in the development of policy recommendations.

How do low- or no-cost government family planning programs affect commercial sector growth?

There is a strong correlation between the percentage of public sector clients who receive free family planning services and commercial market share, particularly in low-income countries.[19] When all or most public sector clients receive services at no charge from government or NGO sources, the commercial sector cannot compete and is likely to be small. When subsidized programs grow, commercial market share often shrinks. In Senegal, for example, the commercial share of the contraceptive market fell from about 50 percent to 25 percent as the number of donor-provided contraceptives increased during the late 1980s.[20] One of the most significant steps governments can take to encourage commercial sector growth is to stop providing free or subsidized services to those who can afford to pay.[21]

How does the regulatory and tax environment influence commercial sector growth?

An array of regulations, taxes and import duties discourages the commercial sector from providing family planning services by making it a burdensome or unprofitable venture. Eliminating or reducing these barriers will encourage commercial sector growth. The experience of Tanzania can be used to illustrate: Half of

Table 1. Percent Whose Husbands Are in White Collar Professions, by Source of Contraceptives and in the General Population

Country	Contraceptive Users		
	General Population	*Public*	*Commercial*
Ghana	21.5	33.5	29.7
Kenya	24.9	31.4	43.1
Senegal	50.0	56.6	73.4
Uganda	17.7	41.4	48.4

Source: Winfrey, 1997.

all private facilities now operating in the capital city, Dar es Salaam, were established after private practice laws were liberalized in 1991.[22]

QUESTION #6:

What steps can be taken to increase the role of each type of commercial sector provider or financier?

Commercial sector providers or financiers include: employers, managed care arrangements, private health-care professionals, and retailers. Each of these groups can play a more prominent role in the provision of family planning services, if encouraged appropriately.

What is the role of employer-based services, and should efforts be made to increase its role?

Employers may provide family planning services if they believe the benefits of doing so (e.g., reduced maternity leave, productivity gains) outweigh the costs of service provision. Employers benefit only if covered employees are not obtaining contraception from another source prior to using employer-based services. Employer interest, therefore, is in increasing contraceptive use, rather than encouraging users to switch sources.

A range of interventions have been used to promote employer-based services. These include the development of cost-benefit analyses to illustrate the benefits of such services to employers, as well as the provision of technical and financial subsidies. Unfortunately, a recent review of employer-based projects concluded that there is insufficient evidence to determine which approaches are most effective.[23]

In fact, it is not clear whether employer-based services will be able to play a major role in the sub-Saharan region. The small size of the formal employment sector, the small proportion of women in this sector, and the small number of formal sector companies that are large enough to consider on-site service provision limit the overall potential of this approach. Its potential for shifting users out of the public sector is even more limited, since formal sector employees are among those most likely to be using commercial sector services already. For these and other reasons, the potential for reducing the burden on the public purse by expanding employer-based services is limited at best.

What is the role of managed care, and should efforts be made to increase its role?

In managed care arrangements — e.g., health insurance, or health maintenance organizations (HMOs) — a third party pays providers for services supplied to individuals in exchange for premiums paid by the individuals (or, more often, the individuals' employers).[24]

A recent evaluation of interventions to promote managed care involvement in family planning concluded that these were relatively high risk and had few short-term benefits.[25] Insurance companies have even less incentive to finance family planning than do employers. If they cover maternity care, which is rare, insurance companies can benefit from some of the savings derived from family planning, including a reduced number of pregnancies and deliveries. They cannot, however, benefit from reduced employee turnover and productivity gains. In addition, the salaried, formal sector employees that insurance companies cover are more likely to be using contraceptive services already, without insurance coverage. Therefore, including family planning among insurance benefits is unlikely to be profitable.

Increasing the coverage of managed care will increase the number of contraceptive users who turn to the commercial sector. However, the potential for this option to reduce the burden on public services is even more limited than for employer-based services. Again, this is because the eligible group — salaried, formal sector, employees, and particularly those who are female — is small and already more likely to be using commercial sector services.

How can we increase the role of private sector providers?

Private health-care providers could play a greater role in family planning by including it among the other health services they provide. However, the potential for this approach should not be overestimated: Because the market for family planning is so small in many sub-Saharan countries, it is generally not a profitable enterprise in and of itself.[26] This is a major reason behind the lack of dynamism in the commercial market for family planning in the region.

Box 1. Ways to increase the role of private providers

Review restrictions on private practice. In some settings, providers are prohibited from engaging in private practice or can only do so to a limited extent. A first step, therefore, is to allow private practice per se. When private practice is allowed, providers also should be made aware of this option. In Zimbabwe, for example, most nurses surveyed in a recent study were not aware of their right to practice privately.[27] In addition, policies restricting the provision of family planning among private providers should be reviewed. In Zimbabwe, physicians who do not practice within five kilometers of a pharmacy are not allowed to prescribe oral contraceptives.[28]

Provide training. Even when they are interested in providing family planning services, providers often lack the necessary training. Physicians in Zimbabwe identified lack of training as a significant barrier to the provision of contraceptive services.[29] A number of targeted training efforts have been undertaken, with positive results. Following a training program in Ghana, for example, midwives have become respected and well-known for their role in family planning service delivery.[30]

Provide capital. Service providers need capital to buy or expand facilities, equipment and supplies to provide family planning services. Governments often have considerable control over the supply of capital and can assist by providing credit for start-up costs, among other interventions.

How can we increase the role of retailers?

Retailers could also play a greater role in family planning service provision in the region, if regulations were updated and sufficient training were made available.

Box 2. Ways to increase the role of retailers

Review regulations. In many countries, retailers operate in a restrictive regulatory environment. In Nigeria, pharmacists are not permitted to provide injectable contraceptives, although they do provide other types of injections.[31]

Provide information and training. Retailers often lack sufficient training in family planning. In Zimbabwe, lack of up-to-date information on oral contraceptives (OCs) prevents many pharmacists from providing this method, although they are permitted to do so.[32]

QUESTION #7:

Will the introduction of social marketing reduce costs or decrease the need for donor funding?

Social marketing, or the sale of contraceptives at subsidized prices at retail outlets, is the most important component of retail sales. Social marketing applies commercial marketing techniques to increase the availability and affordability of contraceptive services to low- and moderate-income consumers. Although these programs sell their products through commercial outlets, from a funding point of view they cannot be considered as purely commercial because they generally receive some funding from donors as well as in-kind contributions of contraceptive commodities. Several contraceptive social marketing (CSM) programs are active in sub-Saharan Africa; these generally received support either from the Social Marketing for Change (SOMARC) Project or from Population Services International (PSI). All programs sell condoms and some also include other methods. Ghana's program provides the most methods at five. The dominance of condoms is related to an emphasis on AIDS prevention or to restrictions on the sale of hormonal methods at commercial outlets.

Two issues are of concern here: whether the introduction of social marketing decreases program costs or reduces funding requirements from donors. In order to determine this, the costs of CSM programs implemented through the SOMARC project were evaluated.[33] The authors conclude that the average costs per couple year of protection (CYP) of social marketing projects implemented by SOMARC were substantially lower than for other modes of service delivery. However, these costs were defined as the total U.S. Agency for International Development (USAID) costs and did not include any costs paid by the commercial sector. Therefore, this study actually measured costs borne by USAID rather than total program costs. Over time, as the commercial sector and governments in developing countries take over some of the tasks paid by SOMARC in the early years of the project, they will require less funding from USAID, and funding per CYP will decline. Total costs might not change, only their distribution between donor and local sources. However, it is certainly important that lower donor contributions per CYP will be required.

In general, CSM programs are expected to decrease reliance on local government and donor funds by inducing users to switch from more to less highly subsidized services. One study in Honduras, however, found that the introduction of a social marketing program which provided OCs did not accomplish these goals. The market share of commercial brands fell, and the costs of providing OCs to users previously paying the full cost of OCs was now partially borne by donors. However, given that the share of the commercial sector is far smaller in sub-Saharan African countries than in other regions, source switching from commercial to social marketing brands may be of little significance. While the market share of the community-based distribution (CBD) program also fell, which was a positive result, any cost savings of OC provision by the CBD program were likely to be minimal as the number of distributors in that program actually increased.[34]

Similar analyses have not been conducted in sub-Saharan African countries. However, before we can say that substitution of social marketing for other service delivery modes saves donor and public funding, such analyses should be undertaken. More qualitative assessments suggest that the change from subsidized to sustainable programs is a slow and not always successful process.[35,36]

QUESTION #8:

How do we plan for future commercial sector investment?

The following questions should be considered in determining whether and how to invest further resources in the commercial sector:

Can the commercial sector thrive without substantial economic development?

Variations in the size of the commercial sector reflect basic socio-economic differences among countries that are not amenable to policy intervention in the short term. The tools available to promote commercial sector growth may, therefore, have limited impact.

Can donors support the subsidized public and NGO sectors and the commercial sector simultaneously?

The untargeted growth of subsidized services has impeded commercial sector growth because the commercial sector cannot compete with low or zero prices. Slower subsidized service growth would promote the growth of the commercial sector, but would probably also result in slower service growth overall. There is a fundamental conflict between efforts to stimulate service growth through subsidized programs and efforts to foster domestic resource mobilization through commercial sector promotion.

Do governments use resources that are freed when users transfer to the commercial sector to expand or improve public sector services?

It is often taken for granted that governments use resources freed by a reduction in the number of public sector clients to extend services to needier groups. If this is not the case, then it is difficult to justify investment in commercial sector activities.

What types of commercial sector interventions should be supported?

Most commercial sector projects undertaken to date have focused on the promotion of employer-based services and managed care. As explained in Question #6, these options may not be very successful in shifting users to the commercial sector. Moreover, if donors are to support any one particular strategy to foster commercial sector growth, it should be for social marketing, as it has a far greater potential to reach a large segment of the market. It may be that more general interventions to encourage commercial sector growth — such as changes in regulatory and tax policy — should be emphasized. In addition, commercial sector intervention is likely to be far more successful in some countries than in others, based on socio-economic and other contextual factors.

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About These Policy Briefs

This series of four policy briefs was written by Barbara Janowitz, Diana Measham and Caroline West. It was published by Family Health International with support from the Office of Sustainable Development, Bureau for Africa, U.S. Agency for International Development.

The briefs explore four key issues in the financing of family planning services in sub-Saharan Africa:

1) the need for additional funds for family planning in sub-Saharan Africa;

2) charging fees for family planning services;

3) expanding commercial sector participation in family planning; and

4) reducing costs and enhancing efficiency.

For more in-depth information, please request a copy of the 80-page report, *"Issues in the Financing of Family Planning Services in Sub-Saharan Africa,"* from: Publications Coordinator, Family Health International, P.O. Box 13950, Research Triangle Park, NC 27709 USA. The report is also available in full text on FHI's Web site at *http://www.fhi.org.*